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Farm

Ownership

Loans

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MAY 24 '79



A Rural Credit Agency of the
U.S. DEPARTMENT
OF AGRICULTURE

FARMERS HOME
ADMINISTRATION
Program Aid No. 62

Farm Ownership Loans

The Farmers Home Administration (FmHA) makes and guarantees farm ownership loans and provides technical management assistance to eligible applicants who will operate family-size farms. These farms can be operated by individuals, partnerships, cooperatives or corporations.

All loan funds are supplied from private sources. Insured loans are made directly from an FmHA revolving fund to the borrower. Guaranteed loans are made and serviced by usual commercial sources, such as Federal Land banks, local banks, insurance companies, and savings and loan associations. In these cases, FmHA provides the lender with a guarantee against losses on the loan.

FmHA also makes farm ownership loans in participation with other lenders and sellers of farms who supply a part of the needed loan funds. In these cases, FmHA loans may be secured by a junior lien on the property.

Each farm ownership loan is tailored to the borrower's needs. The lender or the FmHA county supervisor helps the borrower analyze the situation, determine available resources, and plan how these resources, plus the funds obtained by the loan, may be best used. Technical assistance helps the borrower solve problems that arise in making major adjustments in the operation and in adopting improved practices. Special emphasis is given to meeting the credit needs of limited resources borrowers and beginning farmers.

Loans may be used to finance structures

of farming enterprises that are consistent with local antipollution or environmental quality standards and regulations.

All who apply get equal consideration without regard to sex, race, color, religion, national origin, marital status, or age.

HOW CAN LOAN FUNDS BE USED?

Farm ownership loans may be used to buy, improve, or enlarge farms. Funds can be used to construct, improve, or repair farm homes and farm service buildings, to drill wells and otherwise improve onfarm water supplies, to install pollution control measures, to develop energy conservation measures, and to refinance debts.

In addition, these loans may be used to develop and improve farm land, clear and level land, establish and improve farm forests, provide drainage systems, carry out basic land treatment practices, and to make other improvements.

Loan funds also may be used to provide facilities to produce fish under controlled conditions and to finance nonfarm enterprises which will help farmers supplement their farm incomes. To assist in these enterprises, loans can be used to develop land, construct buildings and other facilities, purchase equipment, and make other real estate improvements.

Nonfarm enterprises which may be financed on family farms include camping and swimming facilities, tennis courts, riding stables, vacation rental cottages, lakes and ponds for boating and fishing docks, nature trails, picnic grounds, repair shops, roadside markets, souvenir shops, craft and wood or metal working facilities, and small grocery stores or service station facilities.

WHAT ARE THE TERMS AND INTEREST RATES?

Repayment terms and interest rates vary according to the type of loan made. Repayment is scheduled according to the borrower's ability to repay. The maximum repayment term is 40 years. The interest rate is set periodically, based on the cost of borrowing to the Government.

A lower interest rate is available for borrowers with limited resources. Loans to limited resource borrowers will be reviewed after 3 years and the interest rate increased if the borrower has sufficient repayment ability. These loans then will be reviewed every 2 years thereafter.

However, if at any time the borrower has sufficient income and repayment ability to pay the then current rate being charged, the borrower's interest rate will be increased to the current rate.

For loans made by other lenders and guaranteed by FmHA, the interest rate and repayment terms will be agreed upon by the borrower and the lender. Interest rates on these loans may not exceed any maximum set by the Secretary of Agriculture.

Each borrower who receives an insured loan is expected to refinance the unpaid balance of the loan when it is financially feasible to rely on commercial credit sources.

Farm ownership borrowers are required to maintain their property, and pay taxes and property insurance premiums when due.

WHO CAN BORROW?

Individuals, partnerships, cooperatives, and corporations primarily and directly engaged in farming and ranching on family-size operations may apply.

To be eligible, an individual must:

1. have farm experience or training and

- possess the character, industry and ability needed to succeed in farming.
2. be a citizen of the United States, which includes Puerto Rico, the Virgin Islands, Guam, American Samoa, and the Commonwealth of the Northern Mariana Islands.
 3. possess the legal capacity to incur the obligations of a loan.
 4. be unable to obtain sufficient credit elsewhere at reasonable rates and terms to finance actual needs.
 5. be the owner-operator of not larger than a family farm after the loan is closed.
 6. need to rely on farm and other income to provide a level of living comparable to that considered reasonably adequate for the area the farm is located in.

In the case of corporations, cooperatives, or partnerships, the stockholders, members, or partners holding a majority interest must meet these same eligibility requirements and the entity must be authorized to own and operate a farm or ranch in the state where the land is located. All borrowers must honestly try to carry out the conditions and terms of the loan.

If the individuals holding a majority interest in the entity are related by blood or marriage, at least one stockholder, member, or partner must operate the family farm. If not related by blood or marriage, all stockholders, members or partners AND the entity must own and operate the farm.

Corporations, cooperatives and partnerships which consist of one or more members, stockholders, or partners who already have an FmHA farm ownership, soil and water, recreation, or operating loan, either individually or as a part of another entity, are NOT eligible for an FmHA farm ownership loan.

WHERE TO APPLY FOR A LOAN?

Apply at the office of a commercial lender for a guaranteed loan, and the FmHA county office serving the area where the property is located for an insured loan. If the office cannot be located in the local telephone directory under U.S. Department of Agriculture, write to the Farmers Home Administration, U.S. Department of Agriculture, Washington, D.C. 20250.

WHO DETERMINES ELIGIBILITY?

The county or area committee of the FmHA determines the eligibility of applicants. The committee consists of three persons who know local farming and credit conditions and what it takes to succeed. Before acting on an application, the committee may ask the applicant to meet with them, or they may visit the farm.

IF THE APPLICANT IS ELIGIBLE, WHAT'S NEXT?

The applicant will be assisted by the lender or FmHA county supervisor in working out a plan to make the best use of land, labor, livestock, capital, and equipment. This plan will be a guide for the borrower to use in determining the soundness of the proposed operation and to follow in operating the farm or nonfarm enterprise. Before a loan is made, it must be clear that the borrower will have enough income to meet operating and family living expenses and to repay the loan and other debts. In all cases, labor must be furnished primarily by the operator and immediate family, except during seasonal peak-load periods.

WHAT ELSE IS INVOLVED?

In certain cases, the county supervisor will assist the applicant in contacting creditors to determine if existing debts can be adjusted or consolidated and repayments extended over a longer period of time.

This credit service is designed to help those farmers who are in serious financial trouble and need assistance in working out the orderly settlement of their debts in line with their planned income.

IS OTHER MANAGEMENT HELP AVAILABLE?

Farm ownership loans are accompanied by technical advice to help borrowers make profitable use of their land and water, labor, capital, and other resources. The borrower receives advice in keeping records of expenses and income and in budgeting and otherwise making wise use of income and credit. USDA agencies including FmHA are available to help the borrower with management problems.

WHAT SECURITY IS REQUIRED?

Each loan will be adequately secured by real estate to protect the interests of the lender and the government.

WHAT DETERMINES THE SIZE OF THE LOAN?

The maximum outstanding principal balance for insured loans is \$200,000 and for guaranteed loans \$300,000. In addition, the loan may not exceed the market value of the farm or other security.

CAN A FARMER WITH OTHER INCOME QUALIFY?

Yes, if otherwise eligible, and the non-farm income is needed to supplement the

farm income in order to provide a level of living comparable with that considered reasonably adequate for the area.

DOES IT COST ANYTHING TO APPLY FOR A LOAN?

No. If a loan is processed, however, the private lender of a guaranteed loan may charge a reasonable fee for service, appraisal, and other services.

WHAT OTHER LOANS DOES FmHA MAKE?

Loans also may be made to buy livestock and equipment and pay farm and home operating expenses, to convert farms to outdoor recreational enterprises, to build and improve rural homes and essential farm service buildings, to provide rental housing, to develop water supplies and carry out soil conservation measures, to install rural water and waste disposal systems, to develop watersheds, to establish businesses and develop industry, and to meet emergency credit needs of farms.

MAY NONBORROWERS OBTAIN FINANCIAL ADVICE?

Yes, lenders or county supervisors will do all that they can to help farmers find solutions to their financial problems. Sometimes it may only mean a close analysis of just how much a farmer can afford to borrow.